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Before the
Federal Communications Commission
Washington, D.C. 20554

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In the Matter of

Federal-State Joint Board on
Universal Service

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CC Docket 96-45
(Report to Congress)

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

REPLY COMMENTS

MCI Telecommunications Corporation (MCI) hereby replies to the comments submitted in connection with the Commission's Report to Congress on universal service concerning whether Internet service providers (ISPs) are "telecommunications carriers" that must contribute to federal universal service funding.

Some commenters argue that ISPs should not be exempt from contributing to federal universal service or, at least, they should not be exempt when providing telecommunications service. Apparently there is concern that if the Commission's current exemptions from universal service and access charges for ISPs remain unchanged, universal service mechanisms will not collect enough money to support the physical communications infrastructure in the future. Also, commenters appear to be concerned that ISPs might enjoy a competitive advantage in the provision of telecommunications services if their revenues from such services are not subject to federal universal service.

As an initial matter, ISPs are not required to contribute to federal universal service to the extent that they provide information services only. However, to the extent that ISPs provide telecommunication services, they are subject to the federal universal service requirements. In

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addition, current Internet revenues in the United States are relatively small in comparison with telecommunications service revenues and, therefore, the exclusion of these revenues for universal service funding purposes will have little impact on the viability of universal service or the public switched telephone network. Industry estimates of U.S. Internet service provider revenues vary widely, but current estimates are on the order of \$5 billion per year. These estimates include all Internet service provider revenues, including any telecommunications revenues that are already subject to federal universal service. Thus, the total amount of Internet service provider revenue that currently is not subject to universal service and which would be included under an expanded definition of "telecommunications service," would be less than \$5 billion per year. When compared to the total interstate, intrastate and international telecommunications end-user revenues as calculated by the Commission for federal universal service purposes, approximately \$180 billion per year, it is clear that there is no current danger of inadequate universal service funding as a result of the ISP exclusion.

Moreover, the best way to ensure the continued viability of the public switched network and the provision of "universal service" for the benefit of consumers in a competitive environment is to size the cost of universal service at the lowest level necessary to ensure affordable local telephone service; remove the implicit subsidies that remain in interstate access charges; and determine the cost of access based on forward looking economic cost. These are the policy choices the Commission should, in the first instance, implement, and are far more important to achieving pro-competitive and universal service goals in the short term than addressing the ISP issue raised in this proceeding. True access and universal service reform would ensure the continued affordability of telecommunications services, would promote competition, and ensure that consumers are not over-burdened by the cost of excessive universal service requirements.

Respectfully submitted,

MCI TELECOMMUNICATIONS CORPORATION

By:

A handwritten signature in dark ink, appearing to read "Mary L. Brown", is written over a horizontal line.

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Dated: February 6, 1998

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I, Sylvia Chukwuocha, do hereby certify that the foregoing "Comments" was served this 6th day of February, 1998, by hand delivery or first-class mail, postage prepaid, upon each of the following persons:

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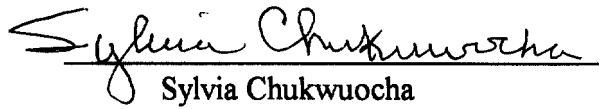
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